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Message Text

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ACTION DOE-01

INFO OCT-01 SS-14 ISO-00 DOEE-00 SOE-01 EB-03 TRSE-00
OMB-01 INR-05 INRE-00 CIAE-00 NSAE-00 PM-03
DODE-00 NSCE-00 SSO-00 ACDA-10 L-01 H-01 OES-02
SP-02 PA-01 ICAE-00 EA-06 /052 W
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FM AMEMBASSY JAKARTA
TO SECSTATE WASHDC IMMEDIATE 1124

C O N F I D E N T I A L SECTION 1 OF 2 JAKARTA 11740

LIMDIS

E.O. 11652* XGDS-2
TAGS: ENRG, ID
SUBJECT: PAC-INDO LNG CONTRACTS

REF: STATE 216982

SUMMARY: AUGUST 29 DISCUSSIONS WITH MINISTER OF MINES AND ENERGY SUBROTO, MINISTER OF TRADE PRAWIRO, PERTAMINA PRESIDENT HARYONO AND MIGAS DIRECTOR GENERAL WIJARSO CLEARLY INDICATE THATLACK OF AGREEMENT ON LNG EXPORTS TO U.S. HAS DURING PAST FEW DAYS BECOME AN INCREASINGLY SERIOUS POLITICAL ISSUE. ALL SOURCES CONFIRMED THAT FAILING A FAVORABLE USG DECISION ON THE PRICE ESCALATOR PRIOR TO OCTOBER, THE CONTRACTS WILL BE CANCELLED. STATING CANDIDLY WHAT OTHERS IMPLIED, WIJARSO SAID THAT CANCELLATION OF THE CONTRACTS, EVEN IF IT BORE NO ADVERSE ECONOMIC CONSEQUENCES FOR INDONESIA, WOULD HAVE POLITICAL IMPACT ON FUTURE COOPERATION. END SUMMARY.

2. MEETING WITH GENERAL HARYONO. CHARGE AND PETROLEUM OFFICER CALLED ON GENERAL HARYONO TO CONVEY INFO REFTEL REGARDING US DECISION PROCESS ON PAC-
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INDO CONTRACTS. HARYONO SAID HE PERSONALLY IS AWARE OF THE US PROCESS BUT THAT OTHER GOI OFFICIALS MAY NOT SHARE HIS UNDERSTANDING OF THE ISSUE AND THAT THE "SITUATION HERE ON LNG IS GETTING WORSE AND WORSE". HE ACKNOWLEDGED AUGUST 29 EDITORIAL IN GOVERNMENT-SUPPORTED SUARA KARYA (SEPTEL) REFLECTS OFFICIAL THINKING ON THE CONTRACTS AND ON THEIR IMPLICATIONS

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FOR US/INDONESIAN RELATIONS.

3. HARYONO SAID RECENT PUBLICITY IN INDONESIAN PRESS OVER LNG SIGNALED A DETERIORATING ENVIRONMENT HERE AND SPECIFICALLY SAID MINISTER SUBROTO'S COMMENTS "HAVE NOT BEEN HELPFUL". HARYONO REITERATED HIS DESIRE TO SELL LNG TO THE US, BUT SAID HE NOW FEELS "LOST AND ALONE IN MY GOVERNMENT".

4. ACCORDING TO HARYONO, WIDJOJO IS PERSONALLY DISPLEASED WITH US PERFORMANCE ON THE LNG CONTRACTS AND BELIEVES NUMEROUS US DELAYS HAVE UNDERCUT INDONESIA'S ABILITY TO NEGOTIATE WITH THE JAPANESE ON LNG. HARYONO SAID HE HAS INSTRUCTED PERTAMINA'S REPRESENTATIVES IN THE US TO MAKE NO FURTHER EFFORT TO REACH AGREEMENT AND PERTAMINA WILL NOW WAIT FOR THE USG DESUCUIN ON THE PRICE ESCALATOR.

5. HARYONO, WHO SAID HE STILL HOPED TO BALANCE JAPANESE MARKET WITH US SALES, MADE TWO SUGGESTIONS ON WAYS EMBASSY MIGHT EASE CURRENT SITUATION. FIRST HE URGED CHARGE TO CALL ON SUBROTO, WIDJOJO AND PRAWIRO TO EXPLAIN PRESENT STATE OF US HANDLING OF THE CONTRACTS. SECONDLY, HE ADVISED US TO TRY TO EXPLAIN CLEARLY TO THESE AND OTHER OFFICIALS THE COMPLICATED US REGULATORY PROCESS, WHICH HARYONO CONFIDENTIAL

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SAID REMAINED A MYSTERY TO HIM EVEN AFTER BEING BRIEFED ON IT IN WASHINGTON. (COMMENT. WE OBTAINED IMPRESSION FROM THIS AND OTHER CONVERSATIONS REPORTED BELOW THAT HARYONO IS IN SERIOUS TROUBLE AND THAT HIS TENURE AS PERTAMINA'S PRESIDENT MAY BE THREATENED.)

6. MEETING WITH PRAWIRO. IN SUBSEQUENT MEETING WITH CHARGE' AND E/CM COUNSELOR, MINISTER OF TRADE RADIOUS PRAWIRO ALSO IMPLIED THAT SUBROTO HAD HEATED UP LNG ISSUE WITH SOMEWHAT CONTRADICTORY PUBLIC STATEMENTS. RADIUS CONFIDENTIALLY VOLUNTEERED THAT HE HAD ADVISED SUBROTO TO TELL GOI AMBASSADOR IN WASHINGTON EXACTLY WHAT HIS VIEWS WERE, SINCE PRESS HAD CARRIED CONFLICTING VERSIONS. WHEN INFORMED THAT DECISION ON PRICING FORMULA HAD NOT BEEN REACHED AND THAT ECONOMIC REGULATORY ADMINISTRATION PLANNED TO DECIDE ECONOMIC ISSUE RELATING TO PRODUCTION, LIEQEFACTION, AND LOADING OF GAS IN SEPTEMBER, RADIUS NOTED THAT MINISTER OF STATE FOR ECONOMIC AFFAIRS, WIDJOJO, HAD BEEN "SHOCKED" BY SECRETARY SCHLESINGER'S COMMENTS ON LNG AND ACKNOWLEDGED THAT HE AND HIS COLLEAGUES DID NOT UNDERSTAND FULLY US DECISION- MAKING PROCESS.

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RADIUS EXPRESSED HOPE THAT ISSUE WOULD NOT BECOME
MAJOR IRRITANT IN OUR BILATERAL RELATIONS.

7. CONVERSATION WITH WIJARSO. WIJARSO TOLD PETROLEUM OFFICER THAT
GAP BETWEEN WIDJOJO'S EXPECTATIONS AND REALITY OF CONVERSATION
WITH SECRETARY SCHLESINGER HAD PROVED TO BE
THE "LAST STRAW", SINCE GOI PATIENCE
WAS ALREADY NEAR BREAKING POINT. WIJARSO SAID
PRESIDENT SUHARTO HAS INSTRUCTED GENERAL HARYONO TO
CEASE ADVOCATING LNG SALES TO THE US AND THAT INDO-
NESIA WOULD HAVE TO "LIVE" WITH THE ECONOMIC AND POL-
ITICAL CONSEQUENCES OF THE FAILURE TO REACH AGREEMENT.

8. WIJARSO SPELLED OUT WHAT HE THOUGHT THESE CONSE-
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QUENCES MIGHT BE, STATING THAT EVEN IF THE ECONOMIC
EFFECTS WERE OFFSET BY ADDITIONAL SALES TO JAPAN,
"POLITICALLY THERE WILL BE AN IMPACT ON FUTURE COOP-
ERATION". WIJARSO SHARPLY DISTINGUUISHED THE SUBSTANCE
OF LNG DECISIONS FROM THE PROCESS OF REACHING THEM.
HE SAID THE GOI COULD ACCEPT A STRAIGHTFORWARD YES
OR NO; HOWEVER, AFTER YEARS OF WAITING FOR THE US

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ACTION DOE-01

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OMB-01 INR-05 INRE-00 CIAE-00 NSAE-00 PM-03
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C O N F I D E N T I A L SECTION 2 OF 2 JAKARTA 11740

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TO MAKE UP ITS MIND, WIDJOJO AND THE PRESIDENT
NO LONGER BELIEVE THE US HAS REAL INTERST IN
LNG AND THAT INDONESIA IS BEING MADE TO LOOK
FOOLISH BY CONTINUING TO PUT UP WITH THE LENGTHY
PROCESS.

9. MEETING WITH SUBROTO. LATER IN AFTERNOON,
CHARGE, E/C COUNSELOR AND PETROLEUM OFFICER MET
WITH MINISTER OF MINES AND ENERGY SUBROTO, WHO
THROUGHOUT COURSE OF CONVERSATION DISPLAYED STRONG
SCEPTICISM THAT FAVORABLE LNG DECISION WOULD BE
FORTHCOMING. CHARGE EXPRESSED APPRECIATION FOR
SUBROTO'S RECENT EFFORTS TO CALM PUBLIC EXCITEMENT
OER THIS ISSUE, NOTING THAT CERTAIN COMMENTS BY
MEMBERS OF PARLIAMENT AND BY PRESS DISPLAYED A
MISTAKEN IMPRESSION THAT THE USG HAD WITHDRAWN
FROM AN EARLIER COMMITMENT. CHARGE THEN NOTED
THAT ERA HAD NOT TAKEN DECISION ON ECONOMIC ISSUES
BUT THAT THIS WAS FORECAST FOR MONTH OF SEPTEMBER.
WHEN CHARGE REMARKED THAT THIS PLANNED TIMING SEEMED
TO MEET THE O TOBER "DEADLINEZN SUBROTO HAD GIVEN
PRESS, SUBROTO SPECIFIED THAT DEADLINE WAS "FIRST
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DAY OF OCTOBER OR LAST DAY OF SEPTEMBER." HE SAID SUARA
KARYA EDITORIAL METNIONED PREVIOUSLY DEMONSTRATED
THAT LNG HAD BECOME AN IMPORTANT POLITICAL
ISSUE WHICH COULD NOT BE LEFT HANGING.

10. SUBROTO ASKED FOR GENERAL DESCRIPTION OF
REGULATORY BODIES' RESPONSIBILITIES, WHICH EMBOFFS
ATTEMPTED TO PROVIDE. HE THEN STATED
HE HAD LEARNED THROUGH PERTAMINA SOURCES CHTAT
FERC WAS HOLDING HEARINGS ON PRICING FORMULA
AS WELL AND WAS NOT, AS CHARGE' HAD INDICATED, INVOLVED ONLY
IN CALIFORNIA RECEVING ISSUES. WHEN CHARGE'
SAID WE HAD NO INFORMATION SUGGESTING FERC JURIS-
DICTION EXTENDED TO PRICING, SUBROTO SAID FERC
WAS APPARENTLY ADOPTING VERY BROAD INTERPRETATION
OF ITS JURISDICTION SINCE IT HAD ALSO ASKED FOR
INFORMATION ON HYDROGRAPHY OF ARUN HARBOR. HE
ASKED THAT WE SEEK VERIFICATION OF THIS INFORMATION.

11. SUBROTO CONCLUDED THAT, EVEN IF PRICING FORMULA
IS APPROVED BY ERA, RECEIVING ISSUES MAY WELL
CAUSE FURTHER, INDEFINITE DELAYS. SUBROTO SAID
"MY WORRY IS THAT THERE ARE STILL SO MANY INPON-
DERABLES AND THAT THE MECHANISM FOR DECISION MAKING
IS NOT CLEAR." CHARGE' RESPONDED THAT IMPORTANCE OF
LNG IMPORTATION POLICY CLEARLY DEMANDED THOROUGH

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REVIEW BY RESPONSIBLE AUTHORITIES AND THAT THIS WAS SOLE REASON FOR TIME THUS FAR EXPENDED.

12. COMMENT: AT MOMENT SUBROTO, WHO IS CLEARLY SKEPTICAL OF OUR INTENTIONS, APPEARS TO BE RUNNING WITH LNG BALL/BACKED BY WIDJOJO AND PERHAPS THE PRESIDENT IF NOT THE OTHER PLAYERS. (WHEN CHARGE' CONFIDENTIAL

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AT HARYONO'S URGING ASKED TO SEE WIDJOJO, LATTER REFERRED HIM TO SUBROTO.) WITH DEPARTMENT'S ASSISTANCE, WE HOPE TO GIVE SUBROTO AND OTHERS A BETTER PERCEPTION OF U.S. INTENTIONS. AT THE MOMENT INDONESIANS APPEAR CONFUSED BY OUR REGULATORY PROCESS, UPSET BY THE ASSYMETRY IN EACH GOVERNMENT'S PERCEPTION OF ITS INTERESTS IN THESE CONTRACTS WHICH WAS HIGHLIGHTED DURING THE CONVERSATION WITH SECRETARY SCHLESINGER, AND CONCERNED THAT WE MAY NOW BE REJECTING A PRICE LINK TO INDONESIAN CRUDE AS AN ESCALATOR INDEX.

13. ACTION REQUESTED OF DEPARTMENT: WE WOULD APPRECIATE SOONEST WHATEVER INFORMATION DEPARTMENT CAN PROVIDE ON REGULATORY JURISDICTIONS OF ERA AND FERC AND SCHEDULE OF REGULATORY PROCEEDINGS. IN PARTICULAR WE WOULD APPRECIATE ANY INFORMATION ON ONGOING FERC REVIEW OF THIS ISSUE, WHICH WE CAN SHARE WITH SUBROTO. WOULD ALSO APPRECIATE DESCRIPTION OF MARITIME TRANSPORTATION ISSUES, WHICH HAVE OR ARE LIKELY TO BE RAISED WITH TPERTAMINA OR OTHER INDONESIAN REPRESENTATIVES.
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